SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Scott, et al. Analyst: Jeani Brent Bill Number: AB 1613

Related Bills: SB 1496, SB 1996 (1998) Telephone: 845-3410 Amended Date: 05/12/98

Attorney: Doug Bramhall Sponsor:

SUBJECT: Conformity/Education Loan Interest Deduction/Modifications of Qualified State Tuition Programs

____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended ________.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended ________.

X FURTHER AMENDMENTS NECESSARY.

X DEPARTMENT POSITION CHANGED TO Board Support .

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED February 19, 1998, STILL APPLIES.

X OTHER - See comments below.

SUMMARY OF BILL

This bill would conform California law to the federal deduction for interest on certain education loans and to the modifications and clarifications of the rules relating to qualified state tuition programs contained in the federal 1997 Taxpayer Relief Act (Public Law 105-34).

SUMMARY OF AMENDMENT

The May 12, 1998, amendments removed the provisions relating to conformity to the federal non-refundable HOPE and lifetime learning credits and moved the provisions relating to the deduction for interest on education loans from a separate code section to the existing code section relating to the definition of adjusted gross income.

The May 12, 1998, amendments partially resolved the department's implementation consideration regarding ensuring the education loan interest deduction was an above-the-line deduction. The discussion in the department's analysis of the bill as amended February 19, 1998, relating to the HOPE and lifetime learning credits no longer applies as this provision was removed from the bill. The department's analysis of the bill's provisions, as amended February 19, 1998, relating to the education loan interest deduction and the qualified state tuition program modification, still applies.

TECHNICAL CONSIDERATION

By including amendments in the existing definition of adjusted gross income, the bill would ensure that any deduction would be allowed above-the-line. However, by removing the separate deduction code section, the amendments technically would not allow a deduction. Amendments 1 and 4 would reinsert the separate code

Board Position:

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Department/Legislative Director Date

Johnnie Lou Rosas 6/24/98

section that would allow the deduction and reword the provisions in the adjusted gross income definition to refer to that separate code section.

Amendments 2 and 3 would revise the definition of "member of the family" to mirror the corresponding federal provisions.

REVENUE ESTIMATE

Revenue losses from this bill are estimated as follows:

Estimated Revenue Impact of AB 1613			
For Taxable Years Beginning 1/1/98			
Fiscal Year Impact			
	1998-9	**1999-0**	**2000-01**
Deduction of Interest	($14)	($15)	($16)

The provisions relating to the qualified state tuition program would not change baseline revenue projections since the bill addresses modifications and clarifications that were considered in the revenue estimates of AB 530 (Stats. 1997, Ch. 851), which incorporated those changes.

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

REVENUE DISCUSSION

This estimate was derived from information from the California Aid Commission Office on students loans. The majority of potentially eligible taxpayers would be former students (rather than parents) with modest incomes. It was projected that of the approximate 1 million students in repayment status, half (500,000) would claim the interest deduction for tax year 1998. Many would not be eligible because of the interest period limitation (first 60 months of payments), adjusted gross income tests, home equity financing of loans for which interest currently is deductible, and defaults on loans. It was assumed that the average annual interest payment would be $600 (one-half of an average annual payment of $1,200). If a marginal tax rate of 4.5% is applied to these deductions, the impact would be around $14 million.

BOARD POSITION

Support.

The Franchise Tax Board voted 2-0 at its March 26, 1998, meeting to support this bill. Robin J. Dezember, acting on behalf of Member Craig L. Brown, abstained.

Analyst Jeani Brent
Telephone # 845-3410
Attorney Doug Bramhall

FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 1613
As Amended May 12, 1998

AMENDMENT 1

On page 3, modify lines 14 through 18, as follows:

(c) The deduction allowed by Section ~~221, as added to the Internal Revenue Code by Section 202 of the Taxpayer Relief Act of 1997 (P.L. 105-34)~~ <u>17204</u>, relating to interest on education loans, shall be allowed in computing adjusted gross income.

AMENDMENT 2

On page 5, modify lines 1 and 2 as follows:

that term is used in <u>paragraph (2) of subsection (e) of</u> Section ~~2032A(e)(2)~~ <u>529</u> of the Internal Revenue Code<u>, as amended by Section 211 of the Taxpayer Relief Act of 1997 (P.L. 105-34)</u>, of the former beneficiary of that

AMENDMENT 3

On page 5, modify lines 7 and 8 as follows:

"member of the family," as that term is used in ~~Section 2032A(e)(2)~~ <u>paragraph (2) of subsection (e) of Section 529</u> of the Internal Revenue Code<u>, as amended by Section 211 of the Taxpayer Relief Act of 1997 (P.L. 105-34)</u>, of the former

AMENDMENT 4

On page 5, line 27, after "SEC. 4." insert:

Section 17204 is added to the Revenue and Taxation Code, to read:
17204. Section 221 of the Internal Revenue Code, as added by Section 202 of the Taxpayer Relief Act of 1997 (P.L. 105-34), relating to interest on education loans, shall apply for taxable years beginning on or after January 1, 1998.
SEC. 5.